

COMMUNITY DEVELOPMENT COMMISSION

August 17, 2006

To: Each Supervisor

From: Carlos Jackson, Executive Director

SUBJECT: STATE ENTERPRISE ZONE PROGRAM

This memorandum is to provide you with the status of the State designated Enterprise Zones that are managed by the Community Development Commission (Commission).

Background

Briefly by way of background, the Enterprise Zone Program was developed by the California State Legislature to provide targeted areas with a means to stimulate business and employment growth. Nearly all businesses located in an Enterprise Zone, are eligible to earn tax credits. Other than providing tax credits, the State provides no funding to local jurisdictions for implementation and management of the Enterprise Zones.

The Commission manages the Mid-Alameda Corridor and Altadena Enterprise Zones. They are among a total of 23 Enterprise Zones throughout the State that are expiring in 2006 and early 2007. The Mid-Alameda Corridor Enterprise Zone expires on October 14, 2006, while the Altadena Enterprise Zone expires on April 9, 2007.

Recent Events

The State Enterprise Zone program in general, by the very nature of the tax-credit program, has been the subject of more intense controversy over the past several months. An April 2006 report, "California's Enterprise Zones Miss the Mark," by the non-profit California Budget Project, summarized the perceived problems with the State Enterprise Zone program thusly:

1. The cost of the Enterprise Zone program has increased substantially;
2. California's Enterprise Zone program fails to effectively target areas most in need of assistance;

3. The Enterprise Zone hiring tax credit rewards businesses that do not hire workers with barriers to employment or create new jobs;
4. The Enterprise Zone hiring credit is prone to abuse; and Enterprise Zone eligibility criteria are overly broad.

We believe this controversy led to the recent demise of Senate Bill 1008 which, among other provisions, would have granted a five-year extension to Zones set to expire. This bill will not be heard in this legislative session. We believe that the ongoing negative press regarding the Enterprise Zone program led to a wholesale change in the Enterprise Zone renewal process.

The State has announced that the 23 Enterprise Zones will not be renewed. Instead, any local jurisdiction in California can apply for a new Zone designation in an open and competitive process.

Application Process

The State has made the application criteria to qualify as an eligible Enterprise Zone very stringent. Each jurisdiction applying for an Enterprise Zone must establish an "eligible area," which consists of:

1. An area with a continuous boundary;
2. A population of at least 2,500 people; and
3. A minimum of 51 percent of the land use as commercial or industrial use.

After these basic requirements are met, the eligible area must then meet at least three of the following distress criteria:

1. A net increase in per capita income between 1990 and 2004 of 80 percent or less than the statewide average;
2. An average rate of unemployment for both 2003 and 2004 of 7.4 percent or more;
3. A percentage of persons below the poverty level in 2000 of 15.2 percent or more;

4. At least 70 percent of households with incomes below 80 percent of median county family income in 2000; and
5. The area is within a jurisdiction declared a disaster area by the President of the United States within the last seven years.

Additionally, the application guidelines caution against including large and stable employers, such as new shopping centers, within the boundaries of the proposed Enterprise Zone.

Commission Research

Commission staff applied the criteria to unincorporated areas County-wide and found that the restrictive criteria reduced the County's eligible area to one small section of West Willowbrook, in the Second Supervisorial District. As noted on Attachment 1, this area is only 25% of the size of the unincorporated area in the current Mid-Alameda Enterprise Zone and contains only 9% of the number of businesses. The small business pool makes the chances for economic impact negligible. In the much larger existing Mid-Alameda Corridor Enterprise Zone, the Commission has been averaging about 20 businesses assisted with hiring tax credits per year.

Cost

An environmental Initial Study is required as part of the Enterprise Zone application. The cost for the Initial Study is approximately \$2,000. If an application qualifies for eligibility and scores within the top 23 of all applications submitted to the State, an Environmental Impact Report (EIR) must be submitted. An EIR is estimated to cost between \$15,000 and \$20,000. However, if technical studies are required, the EIR could cost up to an additional \$80,000.

More importantly, the State requires strong local resources dedicated to the Enterprise Zone for a 15-year period and an MOU setting forth the terms. Moreover, the State will monitor and audit each Enterprise Zone program.

According to the latest budget information, management of the Enterprise Zone for the next 15 years will cost approximately \$1.2 million based on one three-quarters equivalent staff person, including administrative support and expenses. The three-quarters equivalent is comprised of $\frac{1}{2}$ professional staff time plus approximately $\frac{1}{4}$ administrative staff time. The primary responsibilities of the Enterprise Zone Manager are to market the program to attract business

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investment into the Zone; provide the voucher for each job qualifying for the hiring credit; and keep the program records in accordance with State requirements.

CDBG funds have been the only funding source available for Enterprise Zone project management and related costs. As you know, each year concern is expressed because the project affects the Commission's CDBG administrative cap, particularly with the yearly decline in CDBG funding. Below is a table summarizing the estimated costs.

Application	Approx. Cost	Long-term Management	Approx. Cost
Initial Study	\$2,000	Admin. Support	\$8,000/year
EIR	\$15 - \$20,000	Professional Staff	\$65,000/year
Tech. Studies	\$0 - \$80,000	Non-Personnel Costs	\$10,000/year
Total	\$17 - \$102,000	Sub-Total	\$83,000/year
		Total (15-year Mgmt)	\$1,245,000

Conclusions

Our conclusion is the small size of unincorporated County area that is eligible for an Enterprise Zone would make an application non-competitive. Moreover, the number of businesses and unemployed persons that could benefit is too limited to warrant a 15-year commitment of currently diminishing Commission resources.

There are ten other Enterprise Zones that are scheduled to expire between 2008 and 2012. It is likely that the State will hold another competitive application round in the next two or three years. At that time, the Commission will again conduct an assessment of the application requirements and determine whether the conditions are more favorable for applying for a long-term commitment of resources. Please let me know if you have any questions or require additional information.

CJ:CC

Attachment

c: Each Deputy